

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

Joint Application of Corix Utilities (Illinois))
LLC; Hydro Star, LLC; Utilities, Inc.;) Case No. 2012-00133
and Water Service Corporation of Kentucky)
for the Transfer and Acquisition)
of Control Pursuant to KRS 278.020)

APPLICANTS' RESPONSE TO
SECOND INFORMATION REQUEST OF THE COMMISSION STAFF

Corix Utilities (Illinois) LLC ("Corix Utilities"); Hydro Star, LLC ("Hydro Star"); Utilities, Inc. ("UI"); and its Kentucky utility subsidiary, Water Service Corporation of Kentucky ("WSCK") (collectively "Applicants") respectfully submit the following responses to the Commission Staff's second information request.

Respectfully submitted,

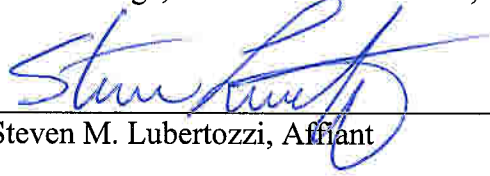


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Lexington, Kentucky 40507
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ATTORNEY FOR APPLICANTS

VERIFICATION

The undersigned, Steven M. Lubertozi, being duly sworn, deposes and says that he is the Executive Director of Regulatory Accounting & Affairs for Utilities, Inc., that he has supervised the preparation of the responses to the Commission Staff's Second Request for Information; and that the matters set forth in the foregoing responses to information requests are true and accurate to the best of his knowledge, information and belief, after reasonable inquiry.



Steven M. Lubertozi, Affiant

NOTARY CERTIFICATE

STATE OF ILLINOIS

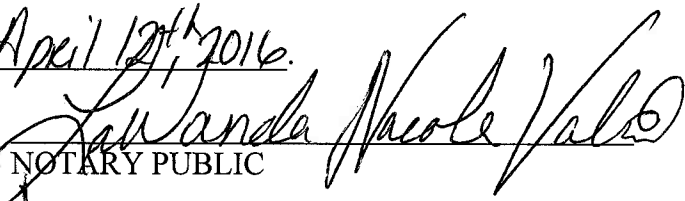
COUNTY OF COOK

Subscribed, acknowledged and sworn to before me by Steve Lubertozi

on this 6th day of July, 2012.

My commission expires: April 12th, 2016.

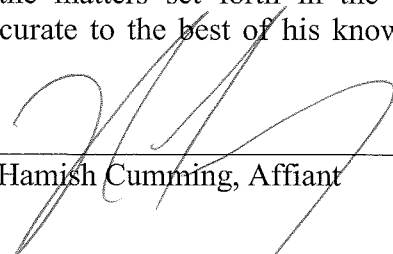




NOTARY PUBLIC

VERIFICATION

The undersigned, Hamish Cumming, being duly sworn, deposes and says that he is the Executive Vice President of Legal & Risk Management for Corix Utilities (Illinois) Inc., that he has supervised the preparation of the responses to the Commission Staff's Second Request for Information; and that the matters set forth in the foregoing responses to information requests are true and accurate to the best of his knowledge, information and belief, after reasonable inquiry.



Hamish Cumming, Affiant

NOTARY CERTIFICATE

PROVINCE OF BRITISH COLUMBIA

CITY OF VANCOUVER

Subscribed, acknowledged and sworn to before me by Hamish Cumming

on this 9th day of July, 2012.

My commission expires: n/a



NOTARY PUBLIC

**MELANIE CHEESMAN
BARRISTER & SOLICITOR
1160 - 1188 West Georgia Street
Vancouver, BC V6E 4A2**

Water Service Corporation of Kentucky
Case No. 2012-00133
Commission Staff's Second Set of Information Requests

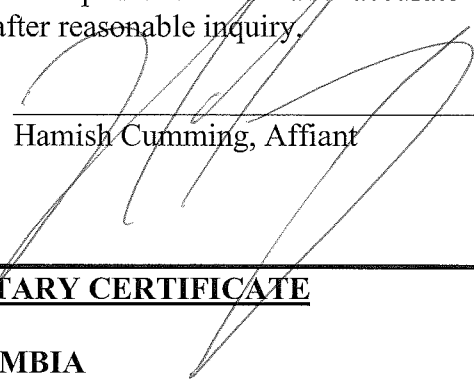
1. Explain why a representative of Corix Utilities did not respond to any of the first requests for information from the Attorney General and Commission Staff that requested information about Corix Utilities or a subsidiary of Corix Utilities.

Response: The responding witness has sufficient knowledge to respond adequately to the requests for information presented by the Attorney General and Commission Staff. To provide further support to the Applicants' responses to the requests for information, the Applicants are attaching an affidavit of Corix Infrastructure Inc.'s Executive Vice President verifying the accuracy of the responses. If a hearing is held in this matter, representatives of Corix will be present at the hearing to respond to questions posed by the Commission, Commission Staff, or the Attorney General.

Witnesses – Steve Lubertozzi
Hamish Cumming

VERIFICATION

The undersigned, Hamish Cumming, being duly sworn, deposes and says that he is the Executive Vice President for Corix Utilities (Illinois) Inc., that he supervised the preparation of the responses to the Attorney General's First Request for Information and Commission Staff's First Request for Information; and that the matters set forth in the Applicants' responses to information requests are true and accurate to the best of his knowledge, information and belief, after reasonable inquiry.



Hamish Cumming, Affiant

NOTARY CERTIFICATE

PROVINCE OF BRITISH COLUMBIA

CITY OF VANCOUVER

Subscribed, acknowledged and sworn to before me by Hamish Cumming

on this 9th day of July, 2012.

My commission expires: n/a



NOTARY PUBLIC

**MELANIE CHEESMAN
BARRISTER & SOLICITOR
1160 - 1188 West Georgia Street
Vancouver, BC V6E 4A2**

2. Refer to Joint Applicants' Response to Commission Staff's First Request for Information, Item 4(a). Joint Applicants state: "Where it is cost effective, we establish smaller location offices rather than providing services through larger regional offices."

a. State whether the reestablishment of a local office in Clinton, Kentucky is consistent with the Corix Group's philosophy as expressed in Joint Applicants' Response to Item 4(a).

b. State whether Corix Utilities will agree as a condition to approval of the proposed transfer of control to reopen an office in Middlesboro, Kentucky.

c. State whether Corix Utilities will agree as a condition to approval of the proposed transfer of control to maintain an office in Clinton, Kentucky for at least 10 years from that date of any Order approving the proposed transfer.

Responses:

a. Assuming it can be demonstrated to be a cost effective option supported through customer rates, re-opening a local office in Clinton is consistent with Corix Group's philosophy.

b. Provided that any additional costs associated with re-opening and operation of a local office in Middlesboro would be included in rates, Corix would agree to the condition as proposed. However Corix would suggest that the rate impacts be determined prior to any decision being taken regarding re-opening a local office.

c. As stated in the response to 2.b., Corix would suggest that the rate impacts be determined prior to any decisions being taken on establishing and maintaining a local office.

Witnesses – Steve Lubertozi
Hamish Cumming

3. Refer to Joint Applicant's Response to Commission Staff's First Request for Information, Item 4.

a. State for each year from 2008 to 2011 the amount of donations and monetary contributions that Hydro Star, Utilities, and Water Service have made to local civic and charitable organizations in Clinton and Middlesboro, Kentucky.

b. Describe the change in the level of these contributions, if any, in the level of these contributions should the proposed transfer of control occur.

c. Describe the changes in the current policies of Utilities and Water Service Corporation, if any, that Corix Group would implement to foster greater corporate and employee involvement in Clinton and Middlesboro, Kentucky.

Responses:

a. None.

b. No change is anticipated.

c. Corix has not yet determined what, if any, policy changes may be required. Decisions regarding the most appropriate means of fostering greater corporate and employee involvement in Clinton and Middlesboro will be made following the completion of the transaction in consultation with the management and employees of Water Service Corporation.

Witnesses – Steve Lubertozi
Hamish Cumming

4. Refer to Joint Applicant's Response to Commission Staff's First Request for Information, Item 6(d). Joint Applicants state: "The price paid for the acquisition of Hydro Star reflects a fair market price as negotiated between the parties. Corix is a growth oriented company, and it anticipates the acquisition will facilitate future opportunities for expanding the company's utility businesses throughout the United States." State whether Corix will commit to sharing with Water Service's ratepayers any savings from synergies that result from future acquisitions that occur as a result of the proposed transaction.

Response: Where future acquisitions result in operational cost savings in the provision of utility services, based on a cost-of-service model, benefits would be expected to accrue to all utility customers impacted by those operational cost savings. Where such operational changes have an impact on WSCK, the customers of WSCK would benefit.

Witnesses – Steve Lubertozzi
Hamish Cumming

5. Refer to Joint Applicant's Response to Commission Staff's First Request for Information, Items 15(g) and 16. Identify who, if "there are no bond and debt ratings for Corix Infrastructure's debt instruments and all debt instruments issued separately by a Corix subsidiary or affiliate," determines that Corix Infrastructure's capital structure is "investment grade."

Response: Corix Infrastructure's debt is privately held by a syndicate of major North American financial institutions and, as such, Corix Infrastructure is not required to obtain a third party credit rating. However, Corix Infrastructure works with its syndicate of banks to ensure its capital structure is consistent with investment grade credit metrics.

Witness – Hamish Cumming

6. Refer to Joint Applicants' Responses to Commission Staff's First Request for Information, Item 45. Joint Applicants' Response was not responsive to Commission Staff's Request. State for each proposed condition whether the Joint Applicants object or oppose the proposed condition and, if they object or oppose, the reasons for their objections.

Responses:

1. Proposed Condition: Water Service's books and records will be maintained and housed in Kentucky or shall otherwise be maintained in a manner to be easily accessible to the Commission for inspection at reasonable times.

Applicants' Position: Not all of WSCK's books and records are currently maintained and housed in Kentucky, but they are maintained in a manner in which they could be produced to the Commission for inspection at reasonable times and on reasonable notice to WSCK. The Applicants are willing to accept this proposed condition subject to adding the phrase "on reasonable notice to WSCK."

2. Proposed Condition: Corix, Utilities, and Water Service will not assert in any judicial or administrative proceeding that the Commission lacks for rate-making purposes jurisdiction over Water Service's capital structure, financing, and cost of capital.

Applicants' Position: While the Applicants recognize that the Commission has exclusive jurisdiction over rates of utilities pursuant to KRS 278.040(2), parties cannot waive subject matter jurisdiction of an administrative agency. See Custard Ins. Adjustors, Inc. v. Aldridge, 57 S.W.3d 284, 287 (Ky. 2001) ("The jurisdiction of an administrative agency extends only to those matters that are delegated to it by the legislature."). Accordingly, the Applicants object to this proposed condition.

3. Proposed Condition: Water Service will not seek a higher rate of return on equity than would have been sought if the proposed transfer of control had not occurred.

Applicants' Position: The proposed transfer of control will not affect the WSCK's requested rate of return on equity. Appropriate rates of return on equity are based on market conditions at the time the rates are determined. The Commission has jurisdiction to review the reasonableness of the requested rate of return on equity in every application for rate adjustment. Accordingly, the Applicants are willing to accept this proposed condition.

4. Proposed Condition: The proposed transfer of control will not affect the accounting and rate-making treatments of Water Service's excess deferred income taxes.

Applicants' Position: The Applicants are willing to accept this proposed condition.

5. Proposed Condition: No early termination costs, change in control payments, or retention bonuses paid to a Hydro Star or Utilities employee as a result of the proposed transaction will be allocated to Water Service or recovered from Water Service's ratepayers.

Applicants' Position: The Applicants are willing to accept this proposed condition.

6. Proposed Condition: Neither Water Service nor its ratepayers, directly or indirectly, will incur any additional costs, liabilities, or obligations in conjunction with Corix's acquisition of Hydro Star.

Applicants' Position: To the extent that this does not include obligations that would not otherwise be required by the Commission but for the conditions placed on the transfer, the Applicants are willing to accept this proposed condition.

7. Proposed Condition: Water Service will not incur any additional indebtedness, issue any additional securities, or pledge any assets to finance any part of the acquisition of Hydro Star.

Applicants' Position: The Applicants are willing to accept this proposed condition.

8. Proposed Condition: Any premium that Corix pays for Hydro Star stock, as well as all transaction-related costs, will not be "pushed down" to Water Service and will not be recovered from Water Service's ratepayers.

Applicants' Position: To the extent that this does not include obligations that would not otherwise be required by the Commission but for the conditions placed on the transfer, the Applicants are willing to accept this proposed condition.

9. Proposed Condition: Corix and Utilities will take an active and ongoing role in managing and operating Water Service in the interests of customers, employees, and the Commonwealth of Kentucky, and will take the lead in enhancing Water Service's relationship with the Commission, with state and local governments, and with other community interests, and to advance these goals shall, among other things, arrange for meetings between Corix's and Utilities' chief executive and the Commission and/or its Staff, at least annually.

Applicants' Position: Applicants would accept this proposed condition if the term "chief executive" is changed to "senior management."

10. Proposed Condition: For at least two years from the date of Corix's acquisition of Hydro Star's stock, Corix or Utilities or Water Service will notify the Commission in writing within 10 days of any changes in Utilities' or Water Service's corporate officers and management personnel.

Applicants' Position: The Applicants are willing to accept this proposed condition.

11. Proposed Condition: Corix will notify the Commission subsequent to its board approval and as soon as practicable following any public announcement of any acquisition of a regulated or non-regulated business representing five percent or more of Corix's market capitalization.

Applicants' Position: The Applicants object to this proposed condition. The Applicants would be willing to accept a condition that would require Corix, UI, or WSCK to advise the Commission following any public announcement of any acquisition by Corix that will impact the rates of or service provided by WSCK.

12. Proposed Condition: Corix, Utilities, and Water Service will adequately fund and maintain Water Service's treatment, transmission, and distribution systems; comply with all

applicable Kentucky statutes and administrative regulations; and supply the service needs of Water Service's customers.

Applicants' Position: The Applicants are willing to accept this proposed condition.

13. Proposed Condition: At least 30 days prior to any planned reduction of five percent or more in Water Service's work force, Corix, Utilities or Water Service will notify the Commission, in writing, of the planned reduction and will include with such notice a written study of the reduction's expected effects on service and Water Service's plan for maintaining service quality at the reduced work force level.

Applicants' Position: Water Service Corporation has approximately 435 employees, ten of which are wholly allocated to WSCK. Although there are no planned reductions at this time, this condition would require Commission notification if WSCK has a planned reduction at any time in the future of one employee. This type of condition is neither practical, nor meaningful, for a small utility such as WSCK. Accordingly, the Applicants object to this proposed condition. To the extent that the Commission finds that this type of a condition is required to make the proposed transaction be consistent with the public interest, Applicants would encourage increasing the threshold to a planned reduction of more than thirty percent of WSCK's work force.

14. Proposed Condition: Corix, Utilities, and Water Service will minimize, to the extent possible, any negative impacts on levels of customer service and customer satisfaction resulting from workforce reductions.

Applicants' Position: The Applicants are willing to accept this proposed condition.

15. Proposed Condition: Utilities will hold 100 percent of the common stock of Water Service and that Utilities will not transfer any of that stock, without prior Commission approval, even if the transfer is pursuant to a corporate reorganization as defined in KRS 278.020(7)(b).

Applicants' Position: The public policy articulated in the General Assembly's enactment of KRS 278.020(7)(b) is clear: it is not in the public interest to require Commission approval prior to corporate reorganization of a utility. Commission approval of a corporate reorganization of WSCK would result in unnecessary costs borne by WSCK and, ultimately, WSCK's customers. Accordingly, the Applicants object to this proposed condition.

16. Proposed Condition: Water Service will maintain a substantial level of involvement in community activities, through annual charitable and other contributions, on a level comparable to or greater than the participation levels experienced prior to the date of the merger.

Applicants' Position: Charitable contributions are not typically recoverable through rates. See e.g., Case No. 2010-00036, Kentucky-American Water Company, at 52 (Ky. PSC Dec. 14, 2010); Case No. 98-426, Louisville Gas & Electric, at 2-3 (Ky. PSC Aug. 11, 1999)(characterizing a utility proposal as a "voluntary undertaking" and that such "contributions are made from shareholder funds which are considered below the line for rate-making purposes"). One reason for this is because the contributions are not required to be given. If the Commission requires charitable contributions, it may be lawfully required to allow these contributions to be recovered in rates. Accordingly, the Applicants object to this proposed condition.

17. Proposed Condition: If in connection with the proposed transaction, any state or federal regulatory commission or agency imposes conditions on Corix, Hydro Star, or Utilities that would benefit ratepayers in any other jurisdiction, proportionate net benefits and conditions will be extended to Water Service ratepayers.

Applicants' Position: Different jurisdictions must apply different laws, and there are varying policies in various jurisdictions. It would not be appropriate to automatically extend any condition of the proposed transfer from another jurisdiction. Accordingly, the Applicants object to this proposed condition.

Witnesses – Steve Lubertozzi
Hamish Cumming